

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

VILLAGE OF CUSTER

Mason County, Michigan

FINANCIAL STATEMENTS

February 29, 2008

VILLAGE OF CUSTER

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INDEPENDENT AUDITORS' REPORT

To the Members of the Village Council
Village of Custer, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Village of Custer as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Custer's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Village of Custer as of February 29, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated last day of fieldwork, on our consideration of the Village of Custer's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Custer's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Berthiaume & Co.

June 18, 2008

BASIC FINANCIAL STATEMENTS

VILLAGE OF CUSTER

STATEMENT OF NET ASSETS

February 29, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 253,057	\$ 59,159	\$ 312,216
Receivables	16,628	9,045	25,673
Restricted cash and cash equivalents	-	48,400	48,400
Capital assets:			
Nondepreciable capital assets	750	-	750
Depreciable capital assets, net	<u>19,520</u>	<u>2,015,553</u>	<u>2,035,073</u>
 Total assets	 <u>289,955</u>	 <u>2,132,157</u>	 <u>2,422,112</u>
Liabilities			
Accounts payable and accrued expenses	3,570	164	3,734
Long-term liabilities:			
Due within one year	-	9,000	9,000
Due in more than one year	<u>-</u>	<u>133,000</u>	<u>133,000</u>
 Total liabilities	 <u>3,570</u>	 <u>142,164</u>	 <u>145,734</u>
Net assets			
Invested in capital assets, net of related debt	20,270	1,873,553	1,893,823
Restricted for:			
Debt service	-	116,440	116,440
Streets	56,732	-	56,732
Unrestricted	<u>209,383</u>	<u>-</u>	<u>209,383</u>
 Total net assets	 <u>\$ 286,385</u>	 <u>\$ 1,989,993</u>	 <u>\$ 2,276,378</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

		Program Revenues		
		Charges for	Operating Grants and	Net
	Expenses	Services	Contributions	(Expense) Revenue
Functions/Programs				
Governmental activities:				
General government	\$ 12,415	\$ 11,925	\$ -	\$ (490)
Public safety	861	-	-	(861)
Public works	50,542	-	34,129	(16,413)
Community and economic development	500	-	-	(500)
Recreation and culture	3,300	-	-	(3,300)
Total governmental activities	67,618	11,925	34,129	(21,564)
Business-type activities:				
Sewer	\$ 78,825	\$ 69,150	\$ -	\$ (9,675)
Total business-type activities	\$ 78,825	\$ 69,150	\$ -	\$ (9,675)

continued

The accompanying notes are an integral part of these financial statements.

	Governmental Activities	Business- type Activities	Total
<i>Changes in net assets:</i>			
Net (Expense) Revenue	\$ (21,564)	\$ (9,675)	\$ (31,239)
General revenues:			
Taxes:			
Property taxes, levied for general purpose	16,019	-	16,019
Licenses and permits			
Franchise fees	1,563	-	1,563
Grants and contributions not restricted to specific programs	23,445	-	23,445
Unrestricted investment earnings	9,740	3,229	12,969
Miscellaneous	1,522	-	1,522
Transfers	(112,537)	112,537	-
Total general revenues	(60,248)	115,766	55,518
Change in net assets	(81,812)	106,091	24,279
Net assets, beginning of year	368,197	1,883,902	2,252,099
Net assets, end of year	<u>\$ 286,385</u>	<u>\$ 1,989,993</u>	<u>\$ 2,276,378</u>

VILLAGE OF CUSTER

GOVERNMENTAL FUNDS

BALANCE SHEET

February 29, 2008

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 189,364	\$ 40,880	\$ 22,813	\$ 253,057
Taxes receivable	3,046	-	-	3,046
Due from other governmental units	7,616	4,366	1,600	13,582
Due from other funds	<u>10,725</u>	<u>-</u>	<u>-</u>	<u>10,725</u>
Total assets	<u>\$ 210,751</u>	<u>\$ 45,246</u>	<u>\$ 24,413</u>	<u>\$ 280,410</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable				
and accrued expenses	\$ 1,368	\$ 1,527	\$ 675	\$ 3,570
Due to other funds	<u>-</u>	<u>6,271</u>	<u>4,454</u>	<u>10,725</u>
Total liabilities	<u>1,368</u>	<u>7,798</u>	<u>5,129</u>	<u>14,295</u>
Fund balances:				
Unreserved:				
General fund	209,383	-	-	209,383
Special revenue funds	<u>-</u>	<u>37,448</u>	<u>19,284</u>	<u>56,732</u>
Total fund balances	<u>209,383</u>	<u>37,448</u>	<u>19,284</u>	<u>266,115</u>
Total liabilities and fund balances	<u>\$ 210,751</u>	<u>\$ 45,246</u>	<u>\$ 24,413</u>	<u>\$ 280,410</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 29, 2008

Total fund balances for governmental funds	\$ 266,115
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Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	72,750	
Less accumulated depreciation	<u>(52,480)</u>	<u>20,270</u>

Net assets of governmental activities	<u>\$ 286,385</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2008

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
Revenues:				
Property taxes	\$ 16,019	\$ -	\$ -	\$ 16,019
Licenses and permits	1,563	-	-	1,563
State grants	23,445	24,169	9,960	57,574
Interest and rents	20,435	464	766	21,665
Other revenue	<u>1,522</u>	<u>-</u>	<u>-</u>	<u>1,522</u>
Total revenues	<u>62,984</u>	<u>24,633</u>	<u>10,726</u>	<u>98,343</u>
Expenditures:				
Current				
General government	11,653	-	-	11,653
Public safety	861	-	-	861
Public works	10,800	14,462	25,280	50,542
Community and economic development	500	-	-	500
Recreation and culture	3,300	-	-	3,300
Other	<u>122</u>	<u>-</u>	<u>-</u>	<u>122</u>
Total expenditures	<u>27,236</u>	<u>14,462</u>	<u>25,280</u>	<u>66,978</u>
Excess (deficiency) of revenues over expenditures	<u>35,748</u>	<u>10,171</u>	<u>(14,554)</u>	<u>31,365</u>
Other financing sources (uses):				
Transfers in	-	2,000	-	2,000
Transfers out	<u>(114,537)</u>	<u>-</u>	<u>-</u>	<u>(114,537)</u>
Total other financing sources (uses)	<u>(114,537)</u>	<u>2,000</u>	<u>-</u>	<u>(112,537)</u>
Net change in fund balances	(78,789)	12,171	(14,554)	(81,172)
Fund balances, beginning of year	<u>288,172</u>	<u>25,277</u>	<u>33,838</u>	<u>347,287</u>
Fund balances, end of year	<u>\$ 209,383</u>	<u>\$ 37,448</u>	<u>\$ 19,284</u>	<u>\$ 266,115</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Net change in fund balances - total governmental funds	\$ (81,172)
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	-	
Less depreciation expense	<u>(640)</u>	<u>(640)</u>

Change in net assets of governmental activities	<u><u>\$ (81,812)</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

PROPRIETARY FUND

STATEMENT OF NET ASSETS

February 29, 2008

	<u>Sewer Fund</u>
Assets:	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 59,159
Accounts receivable	7,376
Due from other governmental units	<u>1,669</u>
Total current assets	<u>68,204</u>
<i>Noncurrent assets:</i>	
Restricted cash and cash equivalents	48,400
Capital assets:	
Nondepreciable capital assets	74,753
Depreciable capital assets, net	<u>1,940,800</u>
Total noncurrent assets	<u>2,063,953</u>
Total assets	<u>2,132,157</u>
Liabilities:	
<i>Current liabilities:</i>	
Accounts payable	164
Current portion of long-term debt, payable from restricted assets	<u>9,000</u>
Total current liabilities	<u>9,164</u>
<i>Noncurrent liabilities:</i>	
Long-term debt, payable from restricted assets	<u>133,000</u>
Total noncurrent liabilities	<u>133,000</u>
Total liabilities	<u>142,164</u>
Net assets:	
Invested in capital assets, net of related debt	1,873,553
Restricted for:	
Debt service	48,400
Unrestricted	<u>68,040</u>
Total net assets	<u>\$ 1,989,993</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 29, 2008

	<u>Sewer Fund</u>
Operating revenues:	
Charges for services	<u>\$ 69,150</u>
Total operating revenues	<u>69,150</u>
Operating expenses:	
Supplies	91
Contracted services	5,224
Treatment services	7,514
Administrative expense	1,453
Insurance	2,988
Utilities	2,261
Depreciation	<u>50,633</u>
Total operating expenses	<u>70,164</u>
Operating income	<u>(1,014)</u>
Non-operating revenues (expenses):	
Interest income	3,229
Interest expense	<u>(8,661)</u>
Total non-operating revenues (expenses)	<u>(5,432)</u>
Net income (loss) before operating transfers	<u>(6,446)</u>
Operating transfers:	
Transfer from other funds	<u>112,537</u>
Total operating transfers	<u>112,537</u>
Net income (loss)	106,091
Net assets, beginning of year	<u>1,883,902</u>
Net assets, end of year	<u><u>\$ 1,989,993</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CUSTER

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

Year Ended February 29, 2008

	<u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 66,878
Cash payments to suppliers for goods and services	<u>(95,271)</u>
Net cash provided by operating activities	<u>(28,393)</u>
Cash flows from non-capital financing activities:	
Operating transfers in	<u>112,537</u>
Net cash provided by (used for) non-capital financing activities	<u>112,537</u>
Cash flows from capital and related financing activities:	
Principal payments	(123,000)
Interest paid	<u>(8,661)</u>
Net cash used by capital and related financing activities	<u>(131,661)</u>
Cash flows from investing activities:	
Interest received	<u>3,229</u>
Net cash provided by investing activities	<u>3,229</u>
Net increase in cash and cash equivalents	(44,288)
Cash and cash equivalents, beginning of year	<u>151,847</u>
Cash and cash equivalents, end of year	<u><u>\$ 107,559</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (1,014)
Adjustments:	
Depreciation	50,633
Change in assets and liabilities:	
Accounts receivable	(603)
Due from other governmental units	(1,669)
Accounts payable	(27)
Due to other funds	<u>(75,713)</u>
Net cash provided by operating activities	<u><u>\$ (28,393)</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Custer conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units required to be included in the Village's reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as major streets in the Village.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

The **Local Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as local streets in the Village.

The Village reports the following major proprietary funds:

The **Sewer Enterprise Fund** is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents.

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. The amount required to be set aside as of February 29, 2008 is \$48,400. The Village has set aside this amount in accordance with the requirements.

Receivables – All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances, if any, are immaterial at year end.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500 and an estimated useful life in excess of two years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) of the governmental funds are capitalized if acquired since March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Building	50 years
Machinery and equipment	15-20 years
Sewer system	40 years

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Compensated Absences – The Village does not allow the carryover of unused sick or vacation days. Therefore, no liability has been recorded in the government-wide financial statements.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes – Properties are assessed as of December 31 and the related property taxes are attached as an enforceable lien on July 1 of the following year. These taxes are due on or before August 31 with the final collection date of February 29 before they are added to the county tax rolls. The 2007 taxable valuation of the Village totaled \$5,373,547 on which ad valorem taxes levied consisted of 2.9501 mills for the Village's operating purposes.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Governmental funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis of accounting which is used to reflect actual results. Budgetary control is exercised at the department level. Supplemental appropriations that amend total expenditures of any department require Village Council resolution. Unexpended appropriations lapse at year end.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Excess of Expenditures over Appropriations in Budgeted Funds:

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

NOTE 3: CASH AND CASH EQUIVALENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year-end, the Village had \$361,650 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. At year end, the Village had no investments.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	<i><u>March 1,</u></i> <i><u>2007</u></i>	<i><u>Additions</u></i>	<i><u>Retirements</u></i>	<i><u>February 29,</u></i> <i><u>2008</u></i>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 750	\$ -	\$ -	\$ 750
Depreciable capital assets				
Building	32,000	-	-	32,000
Machinery and equipment	40,000	-	-	40,000
Total depreciable capital assets	72,000	-	-	72,000
Accumulated depreciation	(51,840)	(640)	-	(52,480)
Depreciable capital assets, net	20,160	(640)	-	19,520
Governmental activities, capital assets, net	\$ 20,910	\$ (640)	\$ -	\$ 20,270

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

	<u>March 1,</u> <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 29,</u> <u>2008</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 74,753	\$ -	\$ -	\$ 74,753
Depreciable capital assets				
Machinery and equipment	16,500	-	-	16,500
Sewer system	2,538,608	-	-	2,538,608
Total depreciable capital assets	2,555,108	-	-	2,555,108
Accumulated depreciation	(563,675)	(50,633)	-	(614,308)
Depreciable capital assets, net	1,991,433	(50,633)	-	1,940,800
Business-type activities, capital assets, net	<u>\$ 2,066,186</u>	<u>\$ (50,633)</u>	<u>\$ -</u>	<u>\$ 2,015,553</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 640
Total governmental activities	<u>\$ 640</u>
Business-type activities:	
Sewer	<u>\$ 50,633</u>
Total business-type activities	<u>\$ 50,633</u>

NOTE 5: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 29, 2008 is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	
General Fund	Major Street Fund	\$ 6,271
Local Street Fund	Sewer Fund	4,454
Sewer Fund	General Fund	1,669
		<u>\$ 12,394</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no interfund transfers during the year.

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 6: LONG-TERM LIABILITIES

The Village may issue bonds to provide for the acquisition and construction of major capital facilities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. The following bond was originally due May 1, 2035. The Village has paid principal payments in advance of them being due, which results in the bond maturing May 1, 2023.

The following is a summary of debt transactions of the Village for the year ended February 29, 2008:

<u>Types of Indebtedness</u>	<u>March 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>February 29, Due Within 2008</u>	<u>One Year</u>
<u>Business-type Activities</u>					
Sanitary Sewer System Revenue Bonds, Series 1995, due in annual amounts of					
\$8,000-23,000 with interest	\$ 265,000	\$ -	\$ 123,000	\$ 142,000	\$ 9,000
Total business-type activities	\$ 265,000	\$ -	\$ 123,000	\$ 142,000	\$ 9,000

Annual debt service requirements to maturity for all outstanding debt as of February 29, 2008 are as follows:

<u>Year Ended February 28,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 9,000	\$ 6,188	\$ 15,188
2010	10,000	5,761	15,761
2011	11,000	5,288	16,288
2012	12,000	4,770	16,770
2013	13,000	4,208	17,208
2014-2019	87,000	11,186	98,186
	\$ 142,000	\$ 37,401	\$ 179,401

NOTE 7: DISAGGREGATED RECEIVABLE BALANCES

Receivables for the Village's governmental and business-type activities in the aggregate are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables:		
Property taxes	\$ 3,046	\$ -
Accounts	-	7,376
Intergovernmental	3,582	-
Total receivables	\$ 6,628	\$ 7,376

VILLAGE OF CUSTER

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 8: RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees (workers' compensation); and natural disasters. During the year ended February 29, 2008, the Village carried commercial insurance to cover most risks of losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan

The Village does not provide pension plan benefits.

Post Employment Benefits

The Village does not provide post employment benefits.

Deferred Compensation Plan

The Village does not provide a deferred compensation plan.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF CUSTER

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i>Budgeted Amounts</i>			<i>Variance with</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Property taxes	\$ 15,000	\$ 15,000	\$ 16,019	\$ 1,019
Licenses and permits	-	-	1,563	1,563
State grants	19,000	19,000	23,445	4,445
Interest and rents	3,600	3,600	20,435	16,835
Other revenue	5,000	5,000	1,522	(3,478)
Total revenues	42,600	42,600	62,984	20,384
Expenditures:				
Current				
General government	21,278	17,400	11,653	(5,747)
Public safety	2,500	2,500	861	(1,639)
Public works	12,500	12,500	10,800	(1,700)
Community and economic development	500	500	500	-
Recreation and culture	3,300	3,300	3,300	-
Other	122	39,000	122	(38,878)
Total expenditures	40,200	75,200	27,236	(47,964)
Excess (deficiency) of revenues over expenditures	2,400	(32,600)	35,748	68,348
Other financing sources (uses):				
Transfers out	-	(114,537)	(114,537)	-
Total other financing sources (uses)	-	(114,537)	(114,537)	-
Net change in fund balance	2,400	(147,137)	(78,789)	68,348
Fund balance, beginning of year	288,172	288,172	288,172	-
Fund balance, end of year	\$ 290,572	\$ 141,035	\$ 209,383	\$ 68,348

VILLAGE OF CUSTER

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i><u>Budgeted Amounts</u></i>			<i><u>Variance with Final Budget</u></i>
	<i><u>Original</u></i>	<i><u>Final</u></i>	<i><u>Actual</u></i>	
Revenues:				
State grants	\$ 20,000	\$ 20,000	\$ 24,169	\$ 4,169
Contributions from other units	-	-	-	-
Interest and rents	200	200	464	264
Other revenue	200	200	-	(200)
Total revenues	<u>20,400</u>	<u>20,400</u>	<u>24,633</u>	<u>4,233</u>
Expenditures:				
Current				
Public works	<u>9,700</u>	<u>40,200</u>	<u>14,462</u>	<u>(25,738)</u>
Total expenditures	<u>9,700</u>	<u>40,200</u>	<u>14,462</u>	<u>(25,738)</u>
Excess (deficiency) of revenues over expenditures	<u>10,700</u>	<u>(19,800)</u>	<u>10,171</u>	<u>29,971</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>
Net change in fund balance	10,700	(19,800)	12,171	31,971
Fund balance, beginning of year	<u>25,277</u>	<u>25,277</u>	<u>25,277</u>	<u>-</u>
Fund balance, end of year	<u>\$ 35,977</u>	<u>\$ 5,477</u>	<u>\$ 37,448</u>	<u>\$ 31,971</u>

VILLAGE OF CUSTER

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
State grants	\$ 8,000	\$ 8,000	\$ 9,960	\$ 1,960
Interest and rents	600	600	766	166
Other revenue	200	200	-	(200)
Total revenues	8,800	8,800	10,726	1,926
Expenditures:				
Current				
Public works	6,700	26,700	25,280	(1,420)
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Total expenditures	6,700	26,700	25,280	(1,420)
Excess (deficiency) of revenues over expenditures	2,100	(17,900)	(14,554)	3,346
Net change in fund balance	2,100	(17,900)	(14,554)	3,346
Fund balance, beginning of year	33,838	33,838	33,838	-
Fund balance, end of year	\$ 35,938	\$ 15,938	\$ 19,284	\$ 3,346

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF CUSTER

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended February 29, 2008

Current Taxes:

Property taxes	\$ 16,019
	<u>16,019</u>

Licenses and permits:

CATV franchise fees	1,563
	<u>1,563</u>

State Grants:

State revenue sharing - sales tax	23,445
	<u>23,445</u>

Interest and rents:

Interest	8,510
Rents	11,925
	<u>20,435</u>

Other Revenue:

Reimbursements	1,522
	<u>1,522</u>

Total revenues	<u><u>\$ 62,984</u></u>
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VILLAGE OF CUSTER

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended February 29, 2008

General Government:

Council	3,926
President	840
Clerk/Treasurer	2,510
Buildings and Grounds	<u>4,377</u>
Total general government	<u>11,653</u>

Public Safety:

Fire	<u>861</u>
Total public safety	<u>861</u>

Public Works:

Truck maintenance / DPW	4,745
Street lighting	<u>6,055</u>
Total public works	<u>10,800</u>

Community Development:

Zoning	<u>500</u>
Total community development	<u>500</u>

Recreation and Culture:

Recreation/Parks	<u>3,300</u>
Total recreation and culture	<u>3,300</u>

Other:

Unemployment tax	<u>122</u>
Total other	<u>122</u>

Total expenditures	<u><u>\$ 27,236</u></u>
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VILLAGE OF CUSTER

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 29, 2008

Sanitary Sewer System Revenue Bonds, Series 1995

Issue dated June 1, 1995 in the amount of \$ 675,000

Less: Principal paid in prior years (410,000)
 Principal paid in current year (123,000)

Balance payable at February 29, 2008 \$ 142,000

Balance payable as follows:

<u><i>Year Ended</i></u>	<u><i>Rate</i></u>	<u><i>Principal May 1</i></u>	<u><i>Interest May 1</i></u>	<u><i>Interest November 1</i></u>	<u><i>Total Annual Requirement</i></u>
2009	4.500%	\$ 9,000	\$ 3,195	\$ 2,993	\$ 15,188
2010	4.500%	10,000	2,993	2,768	15,761
2011	4.500%	11,000	2,768	2,520	16,288
2012	4.500%	12,000	2,520	2,250	16,770
2013	4.500%	13,000	2,250	1,958	17,208
2014	4.500%	14,000	1,958	1,643	17,601
2015	4.500%	15,000	1,643	1,305	17,948
2016	4.500%	16,000	1,305	945	18,250
2017	4.500%	17,000	945	563	18,508
2018	4.500%	18,000	563	158	18,721
2019	4.500%	<u>7,000</u>	<u>158</u>	<u>-</u>	<u>7,158</u>
		<u>\$ 142,000</u>	<u>\$ 20,298</u>	<u>\$ 17,103</u>	<u>\$ 179,401</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of Village Council
Village of Custer, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Custer, as of and for the year ended February 29, 2008, which collectively comprise the Village of Custer's basic financial statements and have issued our report thereon dated June 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Custer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, as follows:

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing and summarizing accounting data and preparing financial statements.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing and summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Custer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bertchauer & Co.

Saginaw, Michigan
June 18, 2008



REQUIRED COMMUNICATION TO THE VILLAGE OF CUSTER IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Village Council
Village of Custer

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Custer for the year ended February 29, 2008, and have issued our report thereon dated June 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Custer are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements appear to be neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 9, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the Village of Custer as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Custer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follow:

Recording, Processing and Summarizing Accounting Data

Criteria: All governmental units are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

Saginaw, Michigan
June 18, 2008